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THE Kroger CO. / ANNUAL REPORT 1960



Kroger

ANNUAL REPORT 1960

The pictures shown here and on pages three, four and six of this report are interior scenes of our new store in Peoria, Illinois. This store features the latest in modern design and layout.

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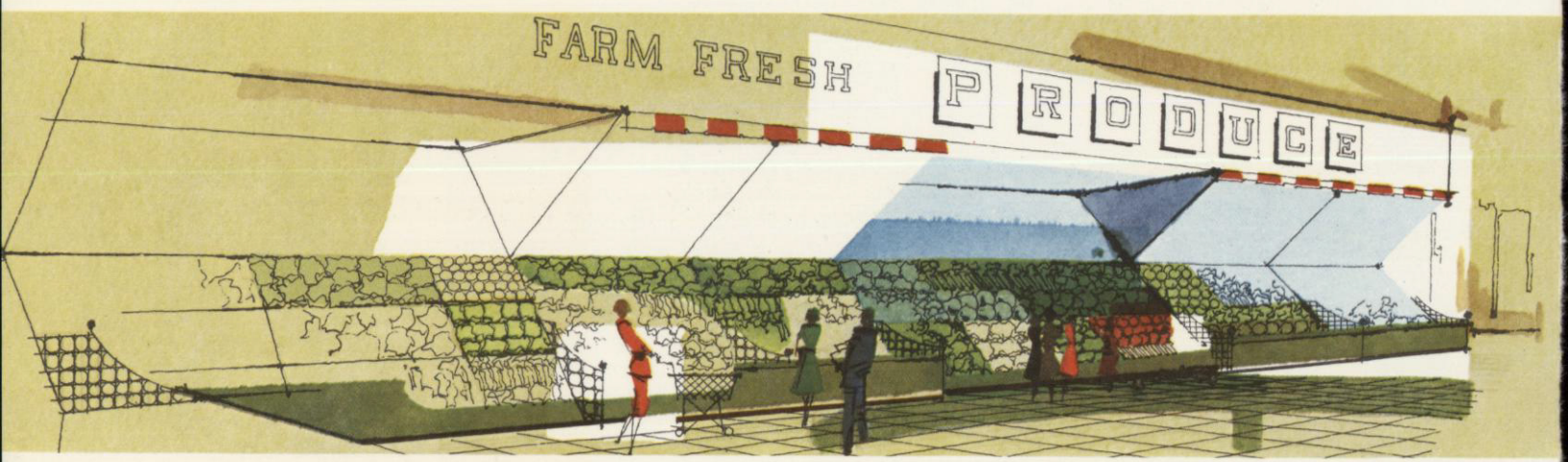
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THE KROGER CO. • 1014 VINE STREET • CINCINNATI 1, OHIO

Officers

JOSEPH B. HALL
President

JACOB E. DAVIS
Executive Vice President

JOHN M. LOCKHART
Executive Vice President

WILBUR R. KORENGEL
Vice President

THOMAS T. OYLER
Vice President

FRANK S. VAMOS
Vice President

FRANK M. GRIEME
Treasurer

JOHN L. STRUBBE
Secretary

FRANK J. ANDRESS
Assistant Treasurer

CARL W. BRIESKE
Assistant Treasurer

PARK O. MOTTER
Assistant Treasurer

CHARLES L. ARNOLD
Assistant Secretary

JOSEPH G. HOERTH
Assistant Secretary

GEORGE A. LEONARD
Assistant Secretary

TRANSFER AGENTS

The Provident Bank,
Cincinnati

Bankers Trust Company,
New York

REGISTRARS

The Central Trust Company,
Cincinnati

Chemical Bank New York Trust Company,
New York

Directors

JOHN C. BAKER
President, Ohio University

JACOB E. DAVIS
Executive Vice President

FRED C. FOY
Chairman of the Board,
Koppers Company, Inc.

HARRY J. GILLIGAN
Proprietor, John J. Gilligan & Son

JOSEPH B. HALL
President

CARL M. JACOBS
Partner, Frost & Jacobs

A. T. KEARNEY
Partner, A. T. Kearney & Company

JOHN M. LOCKHART
Executive Vice President

THOMAS T. OYLER
Vice President

DAVID L. RIKE
President, The Rike-Kumler Company

STANLEY M. ROWE
Chairman of the Board,
Brotherton Corporation

T. SPENCER SHORE
President, The Eagle-Picher Company

EDWARD D. SMITH
President,
The First National Bank of Atlanta

Directors Emeritus

WALTER A. DRAPER
CHARLES W. DUPUIS

Highlights

	1960	1959	Change
SALES	$1,870,289,637	$1,911,902,467	− 2%
NET INCOME	$ 23,478,029	$ 25,516,920	− 8%
NET WORTH	$ 185,077,175	$ 173,461,086	+ 7%
CAPITAL EXPENDITURES	$ 37,619,555	$ 32,997,052	+ 14%
STORES	1,372	1,393	− 2%
NEW STORES OPENED	80	86	− 7%

President's Letter

To Our Shareowners:

1960 sales and earnings were lower than the record results of 1959.

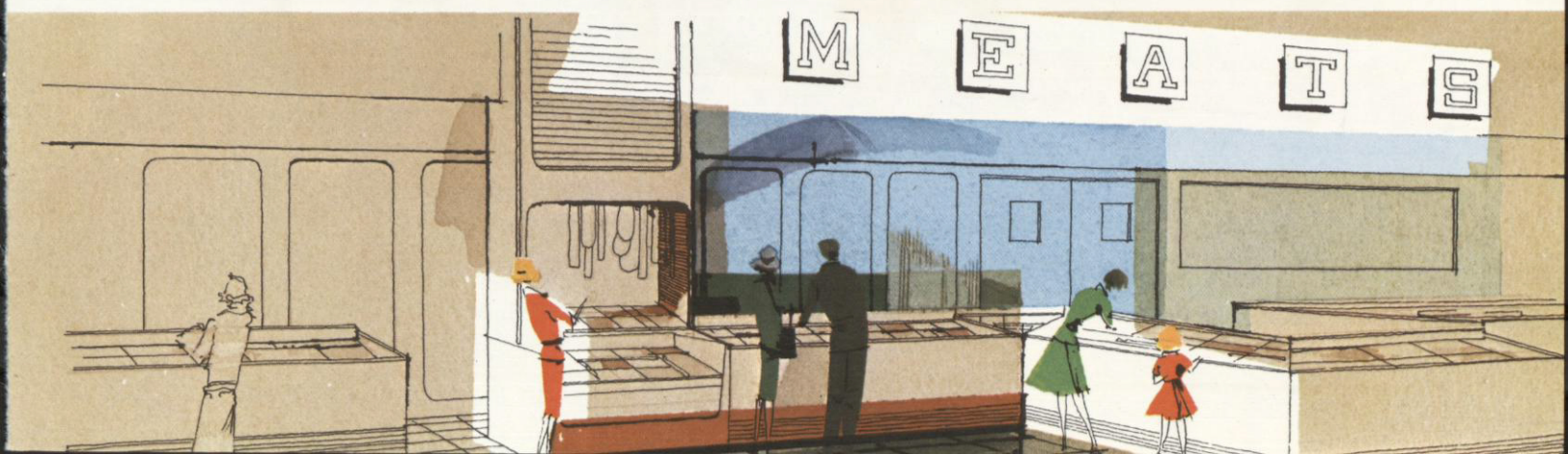
Sales

Sales of $1,870,289,637 in 1960 (52 weeks) were about one-half of one percent lower than the sales for the comparable weeks in 1959 and 2% lower than the sales for the 53-week 1959 year.

Earnings

Net income of $23,478,029 was 8% less than 1959. Net income was equal to $1.87 per share on the 12,547,044 shares outstanding at the year end. This compares with 1959's record net income of $2.06 per share, and $1.76 per share in 1958, on the shares outstanding at the end of each year.

A LIFO charge of 5¢ per share was made against earnings in 1960 as compared to 1¢ in 1959. Earnings before the LIFO charge were $1.92 per share. While use of the LIFO inventory method reduces reported earnings in a year of rising food prices, it also reduces the company's federal income tax payment. Income before taxes has been reduced by $12,252,000 since this inventory method was adopted in 1950 with tax savings of $7,078,341.

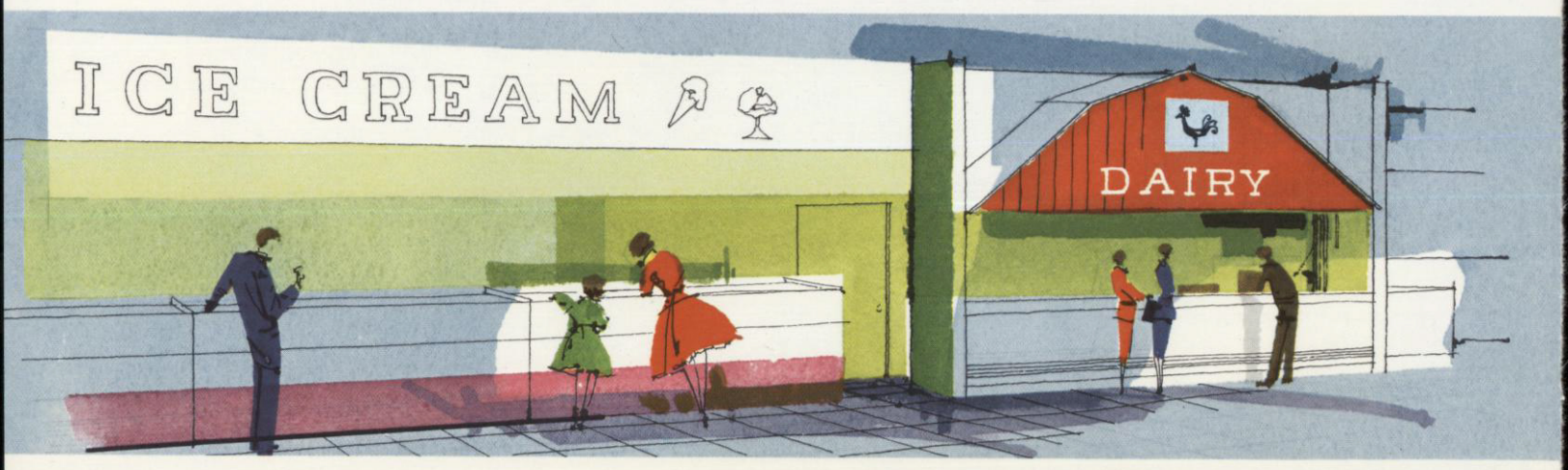


Several other factors accounted for the decrease in earnings. The extra week in 1959—a 53-week Kroger year—was quite profitable since many overhead charges are accrued on a 52-week basis. The small decline in sales could not be offset by lower total expenses since many costs are fixed. There was the inevitable increase in wage rates. Business conditions throughout the year were sluggish, especially in the industrialized areas in which many of our stores are located. Most retail food companies continued their store-building programs, resulting in intensified competition, preventing satisfactory gross margins. Results also were adversely affected by labor disturbances in several areas. The combination of these factors has provided a basis for tightening operations in the months ahead.

Financial Position

During the year investment in real estate, particularly company-developed stores, was increased. Sav-On Drugs, Inc., and Food Town, Inc., were purchased for cash. $11,000,000 of long-term indebtedness was retired prior to maturity. No new long-term financing was required during the year.

The present level of working capital is ample for current operations. Additional cash is readily available through an $11,000,000 revolving credit arrangement.



Store Program

Eighty larger new stores were opened in 1960, 10 Food Town stores were acquired, 111 older smaller stores were closed and 52 stores remodeled. At year end there were 1,372 food stores in operation as compared with 1,393 food stores at the end of the prior year. The average store size for all 1960 openings was 18,100 square feet. The total square foot area of new stores was greater than last year. A total of 13 stores opened in 1960 were company developed and financed.

Capital expenditures for stores, related equipment and improvements in 1960 were $24,139,153.

Distribution

The new Wyatt Division distribution center in Dallas, Texas, was opened this year. Additions to the Columbus and Charleston distribution centers were completed. The new Chicago center was under construction at year end, and completion is expected in 1961. With the completion of the Chicago center Kroger will have modern one-floor warehouses in all but two of the company's retail divisions.

A greater portion of merchandise was delivered to distribution centers on Kroger trucks. New distribution centers permit use of newer, larger, more efficient transportation equipment. New regional bakeries require more transportation equipment to haul products to more distant markets. To meet these needs, the truck fleet was further expanded in 1960.

Capital expenditures for distribution centers were $5,952,099, and for transportation equipment $3,590,702 in 1960.

Manufacturing

A new regional bakery was opened in Indianapolis last summer. This highly efficient modern bakery serves several metropolitan markets. Another regional bakery in Cleveland, originally scheduled for 1960, opened in the first quarter of 1961. Start-up costs on these new bakeries are substantial, but greater efficiency is possible when normal operations are reached. Considerable emphasis was placed upon modernization of existing facilities during 1960. New bulk flour handling facilities were installed at the Columbus bakery.

An automated egg grading plant is now under construction in Coldwater, Michigan, and is scheduled to open in 1961. During the year property was acquired for a manufacturing center just north of Cincinnati in Springdale, Ohio. The first unit for this center will be a modern warehouse which is now being designed.

Capital expenditures for manufacturing facilities were $3,384,060 in 1960. Capital expenditures for all purposes were $37,619,555 in 1960 as compared to $32,997,052 in 1959. Depreciation and amortization were $17,723,294 as compared to $14,575,283 in 1959.

Merchandising Emphasis

There has been a trend in recent years for supermarkets to place unusual emphasis on the sale of soft goods, hardware, appliances and similar lines. Kroger management has studied this subject for several years. Experiments have been conducted with various techniques and product lines. Some items of general merchandise have been added, but Kroger's primary objective continues to be to have the best food stores in every market in which Kroger operates.

In new Kroger stores a greater emphasis is placed on individual departments, especially perishables. Many new stores feature custom bakeries, delicatessens and home center departments.

Expansion Continues

Expansion into new markets continues. During the summer the company expanded into the Washington, D. C., metropolitan area by acquisition of the 10-store Food Town chain. This company was in receivership at the time it was purchased. The management has been reorganized and the stores remodeled. Sales have increased substantially since acquisition. Plans now call for the opening of several large, high-volume stores in this market in the year ahead.

Several other areas are under active consideration. It is expected that at least one of these will be entered in 1961.

In the fall your company entered a related line of business with the acquisition of Sav-On Drugs, Inc., a seven-store drug chain operating primarily in New Jersey. James P. Herring, President of Sav-On, has become Vice President in charge of the newly created Drug Division. Kroger has long been a leader in the sale of health and beauty aids and related drug items. It is believed that further opportunities for expansion exist in this area.

Kroger's Incentives

Kroger management believes in the benefits of incentive programs. Store managers can earn bonuses based upon the profits of their individual stores. Key division personnel receive bonuses based upon the profits of their individual divisions. Company executives, except the President and Executive Vice Presidents, receive bonuses based upon total company profits. All employees 21



years of age or older with two years' continuous service are eligible to participate in the company's Savings and Profit Sharing Plan. Of the total so eligible, 95.4% were participating at year end. The Kroger Employees' Savings and Profit Sharing Plan is now the largest single shareowner in the company, owning 300,627 shares. Stock options are granted to members of management. This group through ownership of 351,646 shares has an important stake in results. This combination of incentives makes every employee conscious of what the company's profits mean to him.

Officers and Directors

At the January 1961 meeting of the Board of Directors Jacob E. Davis, a Vice President since 1944, and John M. Lockhart, a Vice President since 1947, were elected Executive Vice Presidents.

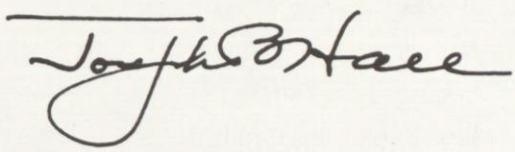
At the Annual Meeting Carl M. Jacobs will not be a nominee for reelection as a Director. In his twenty-two years of service as a Director, Mr. Jacobs has shared with our company his broad legal and business experience, and since 1951 has served as Chairman of the Stock Option Committee.

The death of Charles M. Robertson, a Director Emeritus and a former President and Board Chairman, occurred in January 1961. His sustained interest and wise counsel will be missed.

The Year Ahead

1960 has been a year of intense competition in a generally disappointing economy. It is expected that recovery will begin in 1961. Kroger's rebuilding program has been largely completed. The organization has been strengthened. The company is ready to take full advantage of the improved economy ahead.

Respectfully submitted,



February 10, 1961.

President

The Kroger Co. • Consolidated Balance Sheet

Assets

	Dec. 31, 1960	Jan. 2, 1960
Cash	$ 47,354,159	$ 52,865,583
Marketable securities, at cost	2,007,678	6,784,970
Receivables	9,204,686	9,149,745
Merchandise inventories (Note 1)	118,783,384	118,862,668
Store and general supplies	6,626,866	6,217,118
Prepaid and miscellaneous assets	4,220,274	3,748,483
TOTAL CURRENT ASSETS	188,197,047	197,628,567
Investment in unconsolidated subsidiaries, at cost (Note 2)	2,661,948	2,643,948
Land, buildings and equipment, at cost or less	208,744,046	190,365,160
Less allowance for depreciation	(83,831,610)	(78,985,047)
Leaseholds and leasehold improvements, net	39,302,535	34,590,369
TOTAL ASSETS	$355,073,966	$346,242,997

December 31, 1960 and January 2, 1960

Liabilities

	Dec. 31, 1960	Jan. 2, 1960
Accounts payable	$ 57,792,752	$ 57,130,791
Accrued expenses	34,655,235	34,687,007
Provision for federal taxes	17,267,265	11,955,847
Long-term indebtedness (Note 3)	800,000	—
TOTAL CURRENT LIABILITIES	110,515,252	103,773,645
Long-term indebtedness (Note 3)	45,502,219	57,329,608
Reserve for deferred federal taxes	9,745,000	7,730,000
Employees' benefit fund	4,234,320	3,948,658
CAPITAL		
Preferred capital stock, par $100	35,300	35,300
Common capital stock, par $1 (Note 4):		
Authorized: 18,000,000 shares		
Outstanding: 1960, 12,547,044 shares; 1959, 12,410,000 shares	57,480,488	55,597,004
Accumulated earnings (Note 3)	127,561,387	117,828,782
TOTAL CAPITAL	185,077,175	173,461,086
TOTAL LIABILITIES AND CAPITAL	$355,073,966	$346,242,997

Consolidated Statement of Income

Years Ended December 31, 1960 and January 2, 1960

	1960	1959
Sales	$1,870,289,637	$1,911,902,467
Cost of sales	1,504,111,546	1,544,271,611
Operating and general expenses	317,960,062	313,492,936
Total	$1,822,071,608	$1,857,764,547
Income before federal taxes on income	48,218,029	54,137,920
Federal taxes on income	24,740,000	28,621,000
Net income	$ 23,478,029	$ 25,516,920

Consolidated Statement of Accumulated Earnings

Year Ended December 31, 1960

Accumulated earnings—January 2, 1960		$ 117,828,782
Net income for 1960	$ 23,478,029	
Dividends	13,745,424	9,732,605
Accumulated earnings—December 31, 1960		$ 127,561,387

Notes to Financial Statements

1. Merchandise inventories are valued at the lower of cost or market, and in part are on the Lifo basis.

2. All wholly-owned subsidiaries have been included in consolidation. The company's equity in the net assets of unconsolidated subsidiaries amounted to $4,117,536 at December 31, 1960. No dividends were received from these subsidiaries in 1960. The company's equity in earnings of unconsolidated subsidiaries for 1960 amounted to $506,906.

3. Long-term indebtedness:

3.1% notes maturing October 1, 1971; annual prepayments of $700,000, without premiums, required beginning October 1, 1961	$14,000,000
3¼% notes maturing June 1, 1963	20,000,000
4¾% promissory notes, 70% maturing November 5, 1978 and 30% maturing March 2, 1979	10,000,000
Other	2,302,219
	46,302,219
Less amounts due within one year	800,000
	$45,502,219

Under certain of the loan agreements, payments of cash dividends are limited. At December 31, 1960, accumulated earnings unrestricted, under the agreement carrying the maximum limitation, amounted to $49,346,764.

4. Options to officers and executives to purchase 653,518 shares of Kroger common stock were in force at January 2, 1960. Option transactions during the year may be summarized as follows: granted 44,500 shares; exercised 137,044 shares; expired or cancelled 48,084 shares. Options to purchase 512,890 shares were in force at December 31, 1960. Shares available for option at the beginning and close of the year were 110,322 and 104,863, respectively. Options for 87,192 shares were exercisable at December 31, 1960.

5. The company operates principally in leased premises. At December 31, 1960, there were 685 leases expiring subsequent to 1965.

Report of Certified Public Accountants

LYBRAND, ROSS BROS. & MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANTS

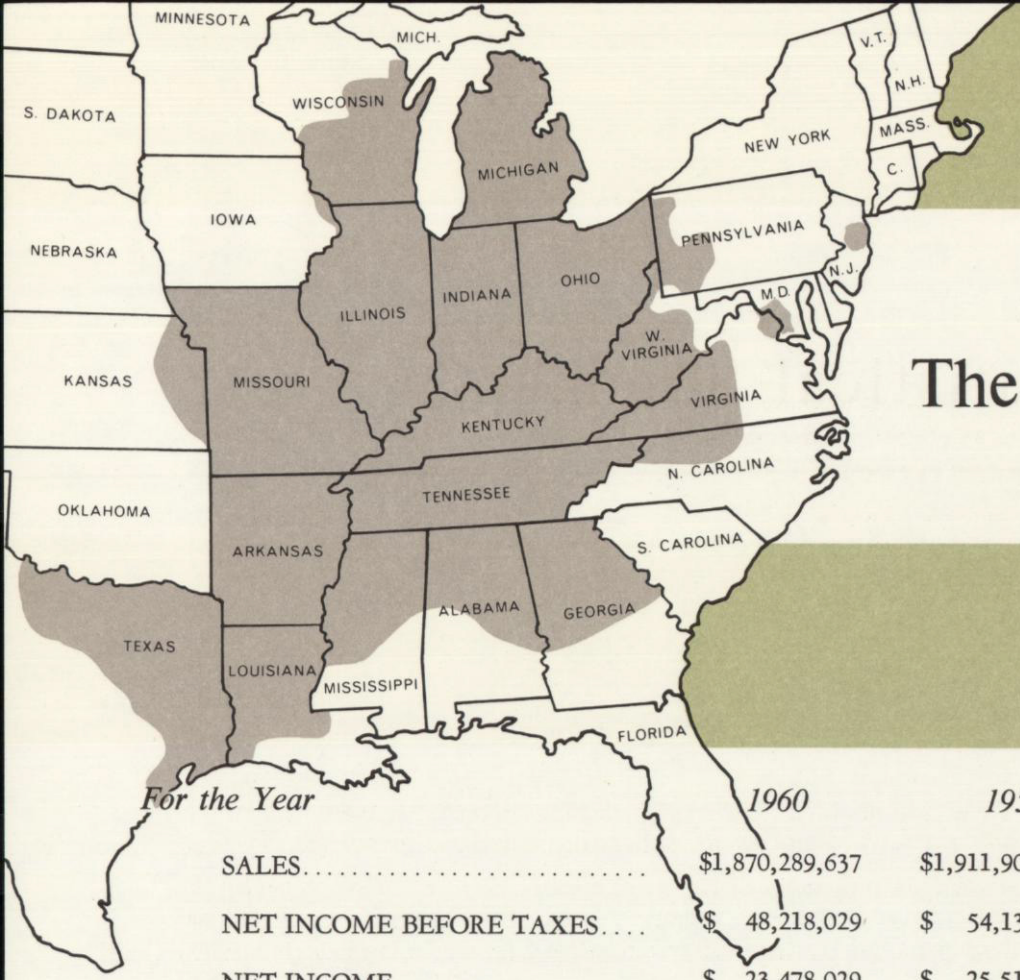
To the Board of Directors,
The Kroger Co.
Cincinnati, Ohio

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary companies as of December 31, 1960, and the related consolidated statements of income and accumulated earnings for the fiscal year (fifty-two weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of income and accumulated earnings present fairly the consolidated financial position of The Kroger Co. and subsidiary companies at December 31, 1960, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Cincinnati, Ohio
February 10, 1961

Lybrand, Ross Bros. & Montgomery



The Kroger Co.

For the Year	*1960*	*1959*	*1958*	*1957*
SALES	$1,870,289,637	$1,911,902,467	$1,776,175,147	$1,674,123,593
NET INCOME BEFORE TAXES	$ 48,218,029	$ 54,137,920	$ 44,432,930	$ 41,505,207
NET INCOME	$ 23,478,029	$ 25,516,920	$ 21,629,930	$ 20,635,207
NET INCOME PER SHARE (1)	$1.87	$2.06	$1.76	$1.70
DIVIDENDS PER SHARE (2)	$1.10	$.95	$.72½	$.66⅔(3)
RETAINED EARNINGS	$ 9,732,605	$ 13,751,230	$ 12,739,263	$ 12,866,895
At the Year End				
CASH	$ 47,354,159	$ 52,865,583	$ 52,566,148	$ 42,927,467
MERCHANDISE INVENTORIES	$ 118,783,384	$ 118,862,668	$ 116,628,932	$ 111,474,382
NET WORKING CAPITAL	$ 77,681,795	$ 93,854,922	$ 86,679,309	$ 73,136,938
NET FIXED ASSETS	$ 164,214,971	$ 145,970,482	$ 130,504,808	$ 108,866,641
ACCUMULATED EARNINGS	$ 127,561,387	$ 117,828,782	$ 104,077,552	$ 91,338,289
NET WORTH	$ 185,077,175	$ 173,461,086	$ 158,573,593	$ 143,730,410
NET WORTH PER SHARE (1)	$14.75	$13.97	$12.87	$11.83
NUMBER OF SHAREOWNERS	35,663	34,972	28,514	26,583
NUMBER OF EMPLOYEES	39,691	40,157	40,500	39,389
NUMBER OF STORES	1,372	1,393	1,428	1,421
ANNUAL SALES PER STORE	$ 1,357,249	$ 1,357,885	$ 1,257,914	$ 1,157,006
TOTAL STORE AREA (Square Feet)	18,264,615	17,392,580	16,805,232	15,092,774

(1) Adjusted for 3 for 1 split in 1958 and 4% common stock dividends in 1956 and 1957.
(2) Adjusted for 3 for 1 split in 1958.
(3) Plus 4% stock dividend.

10 Year Statistical Summary

1956	*1955*	*1954*	*1953*	*1952*	*1951*
$1,492,552,233	$1,219,474,812	$1,108,694,168	$1,058,608,651	$1,051,849,935	$997,086,223
$ 34,515,450	$ 27,994,575	$ 27,326,912	$ 29,309,664	$ 27,935,387	$ 21,710,540
$ 17,071,250	$ 14,368,292	$ 14,912,912	$ 12,528,664	$ 12,110,087	$ 12,657,940
$1.41	$1.20	$1.24	$1.05	$1.02	$1.06
$.66⅔(3)	$.66⅔	$.66⅔	$.66⅔	$.63	$.62
$ 9,641,277	$ 6,962,639	$ 7,530,540	$ 5,168,732	$ 5,128,286	$ 5,859,683
$ 41,518,152	$ 40,696,076	$ 34,627,962	$ 41,792,719	$ 40,078,625	$ 30,128,288
$ 106,274,996	$ 95,112,775	$ 84,667,841	$ 81,196,446	$ 77,143,349	$ 79,170,757
$ 71,945,596	$ 79,180,095	$ 67,522,366	$ 68,707,575	$ 65,884,745	$ 61,528,850
$ 95,528,379	$ 79,616,588	$ 59,575,135	$ 50,451,043	$ 47,843,817	$ 47,087,347
$ 87,656,514	$ 85,163,541	$ 78,200,902	$ 70,670,362	$ 65,501,630	$ 60,373,344
$ 130,159,964	$ 119,910,406	$ 112,585,204	$ 104,646,321	$ 99,216,265	$ 94,090,179
$10.77	$ 9.97	$ 9.39	$ 8.76	$ 8.32	$ 7.89
26,621	26,596	25,501	25,914	26,088	26,254
36,807	33,705	30,320	29,105	28,396	26,864
1,476	1,587	1,678	1,810	1,891	1,978
$ 982,589	$ 740,871	$ 634,991	$ 570,678	$ 544,717	$ 493,119
13,918,774	12,750,326	11,318,339	11,059,602	10,810,237	10,613,701

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